

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01
INR-10 NSAE-00 ICA-20 TRSE-00 XMB-04 OPIC-06
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07
CEA-01 AGRE-00 PA-02 /105 W
-----085798 170216Z /64

R 152202Z JUN 78
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC 7731
INFO AMCONSUL MONTREAL
ALL OTHER CANADIAN CONSULATES POUCH

UNCLAS OTTAWA 03020

DEPT. PASS CEA, TREAS, FRB

E.O. 11652:N/A
TAGS: ECON, EFIN, CA
SUBJECT: CANADIAN INFLATION RATE JUMPS IN MAY.

1. SUMMARY. DRIVEN BY SHARPLY HIGHER FOOD PRICES, NON-SEASONALLY ADJUSTED CONSUMER PRICE INDEX ROSE BY 1.4 PERCENT IN MAY. TWELVE MONTH INCREASE IN INDEX WAS 9 PERCENT, LARGEST RISE SINCE JANUARY, 1978. IN THREE MONTHS TO MAY, CPI INCREASED AT SEASONALLY ADJUSTED ANNUAL RATE OF 11.3 PERCENT, WHILE INDEX OF NON-FOOD ITEMS ADVANCED AT ONLY ANNUAL RATE OF 5.4 PERCENT. ACCELERATION IN CPI INCREASES RISK THAT DEMANDS FOR HIGHER WAGES WILL INTENSIFY AS DECONTROL PROCEEDS. END SUMMARY.

2. ACCORDING TO JUNE 14 STATCAN RELEASE, THE UNADJUSTED (NSA) CONSUMER PRICE INDEX (CPI) ADVANCED TO 173.6 (1971 100) IN MAY, AN INCREASE OF 1.4 PERCENT FROM APRIL. FOOD PRICES (NSA), LED BY HIGH PRICES FOR BEEF AND FRESH VEGETABLES, SURGED BY 3.3 PERCENT IN MONTH AND ACCOUNTED FOR 0.7 PERCENT OF OVERALL INCREASE. INDEX (NSA) OF NON-FOOD
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ITEMS (ONE MEASURE OF UNDERLYING INFLATION RATE) ROSE BY 0.6 PERCENT IN MONTH WITH HIGHER HOUSING CHARGES AND INCREASED PRICES FOR TOBACCO AND ALCOHOL ACCOUNTING FOR MUCH OF INCREASE.

3. IN TWELVE MONTHS TO MAY, UNADJUSTED INDEX INCREASED BY 9 PERCENT, THE LARGEST INCREASE SINCE JANUARY, 1978 AND UP

FROM 8.4 PERCENT IN APRIL. FOOD PRICES WERE UP BY 16.8 PERCENT, NON-FOOD PRICES, BY 6.2 PERCENT.

4. ON SEASONALLY ADJUSTED (SA) BASIS, CPI ROSE BY 1.2 PERCENT BETWEEN APRIL AND MAY. FOOD AND NON-FOOD PRICES ROSE BY 2.6 PERCENT AND 0.6 PERCENT RESPECTIVELY. IN THREE MONTHS TO MAY, CPI (SA) ROSE AT COMPOUND ANNUAL RATE OF 11.3 PERCENT, UP FROM 8.3 PERCENT IN THREE MONTHS TO APRIL, AS FOOD PRICES CLIPPED ALONG AT ANNUAL RATE OF 28 PERCENT COMPARED WITH ONLY 5.4 PERCENT RATE FOR NON-FOOD PRICES.

5. FINANCE MINISTER CHRETIEN SPENT MUCH OF PARLIAMENTARY QUESTION PERIOD ON HIS FEET JUNE 14 ANSWERING POINTED CRITICISM FROM POLITICAL OPPOSITION ON WORSENING INFLATION RATE. IN RESPONSE TO QUESTION BY PC LEADER JOE CLARK, CHRETIEN INDICATED THAT IN LIGHT OF FIGURES FOR MAY, GOC HAD REVISED ITS INFLATION FDRECAST FOR 1978 (YEAR OVER YEAR RISE IN GNP DEFLATOR), UPWARD FRDM 6 PERCENT TO 6.2 PERCENT. AT MAY 22-23 OECD SHORT TERM FORECASTERS MEETING, CANADIAN DELEGATION GAVE FORECAST OF 6.4 PERCENT INCREASE IN GNP DEFLATOR AND 7.3 PERCENT RISE IN CPI. ALL FOUR NUMBERS SMACK OF CONSIDERABLE OPTIMISM.

6. COMMENT: HIGHER CURRENT RATE OF INFLATION POSES DANGERS FOR THE FUTURE. REAL HOURLY LABOR EARNINGS HAVE UNCLASSIFIED

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DECLINED IN LAST TWO QUARTERS. ACCELERATION OF ALREADY HIGH INFLATION RATE THUS INCREASES RISK THAT LABOR WILL SEEK TO MAKE UP LOST GROUND THROUGH HIGHER WAGE DEMANDS AS PHASEOUT OF AIB CONTROLS PROCEEDS. IN ADDITION, PHASEOUT OF CONTROLS TOGETHER WITH RISING INFLATION RATE COULD REIGNITE INFLATIONARY EXPECTATIONS ADDING FURTHER FUEL TO WAGE DEMANDS, DESPITE STEADY OR DECLINING UNDERLYING RATE OF INFLATION AS MEASURED BY NON-FOOD PRICES. DUEMLING

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NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: INFLATION, PRICES
Control Number: n/a
Copy: SINGLE
Draft Date: 15 jun 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 jan 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978OTTAWA03020
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780253-0200
Format: TEL
From: OTTAWA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780656/aaaabwap.tel
Line Count: 102
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 93926088-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 29 mar 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2339624
Secure: OPEN
Status: NATIVE
Subject: CANADIAN INFLATION RATE JUMPS IN MAY.
TAGS: ECON, EFIN, CA
To: STATE
Type: TE
vdkgvwkey: odhc://SAS/SAS.dbo.SAS_Docs/93926088-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014